



**Umzumbe Local Municipality
Annual Financial Statements
For The Year Ended 30 June 2011**

Auditor General South Africa
Issued 31 August 2011

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

General Information

Legal form of entity Local Municipality

Accounting Officer Ngesi M.J (Acting since 1 August 2010)

Chief Finance Officer (CFO) Audan K.

Registered office
Sipofu Road
Mathulini Tribal Authority
4220

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

General Information

Business address	Sipofu Road Mathulini Tribal Authority 4220
Postal address	P.O. Box 561 Hibberdene 4220
Bankers	ABSA Bank Limited
Auditors	Auditor General South Africa

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Index

The reports and statements set out below comprise the annual financial statements presented to the Council:

Index	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Accounting Policies	9 - 16
Notes to the Annual Financial Statements	17 - 29

Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the grant allocations through the Division of revenue act (Dora) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's Chief Financial Officer.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 29, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 16 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Dr M.J Ngesi (Acting - Appointed 1 August 2010)
Municipal Manager

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Operating lease asset	3	179 897	47 112
Other receivables	4	540 771	360 377
VAT receivable	5	7 204 282	5 951 605
Trade and other receivables from non exchange transactions	6	527 778	595 478
Cash and cash equivalents	7	15 617 517	19 786 492
		24 070 245	26 741 064
Non-Current Assets			
Property, plant and equipment	2	113 066 235	84 316 397
Non-Current Assets		113 066 235	84 316 397
Current Assets		24 070 245	26 741 064
Total Assets		137 136 480	111 057 461
Liabilities			
Current Liabilities			
Trade and other payables	11	5 229 789	6 627 014
Unspent conditional grants and receipts	9	1 445 624	15 796 416
Provisions	10	1 306 192	979 985
		7 981 605	23 403 415
Current Liabilities		7 981 605	23 403 415
Total Liabilities		7 981 605	23 403 415
Assets		137 136 480	111 057 461
Liabilities		(7 981 605)	(23 403 415)
Net Assets		129 154 875	87 654 046
Net Assets			
Accumulated surplus		129 154 875	87 654 046

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	12	1 542 607	771 400
Interest received	25	1 420 804	1 558 947
Government grants & subsidies	13	95 485 756	79 405 298
Other income	26	729 912	1 231 369
Total Revenue		99 179 079	82 967 014
Expenditure			
Employee related costs	15	(15 977 840)	(13 953 116)
Remuneration of councillors	16	(7 863 775)	(7 890 532)
Depreciation and amortisation		(6 123 338)	(3 626 133)
Impairment loss		-	(3 020 210)
Debt impairment	6	(188 278)	(94 139)
Repairs and maintenance		(657 265)	(459 048)
Community participation		(3 096 705)	(1 128 184)
General Expenses	14	(23 299 042)	(23 858 969)
Total Expenditure		(57 206 243)	(54 030 331)
Loss on disposal of assets		(342 275)	(302 345)
Revenue		99 179 079	82 967 014
Expenditure		(57 206 243)	(54 030 331)
Other		(342 275)	(302 345)
Surplus for the year		41 630 561	28 634 338

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	58 018 581	58 018 581
Adjustments		
Prior year adjustments (Note 24)	1 541 548	1 541 548
Reallocation of balance	(732 766)	(732 766)
Assets under construction	192 345	192 345
Balance at 01 July 2009	59 019 708	59 019 708
Changes in net assets		
Surplus for the year	28 634 338	28 634 338
Total changes	28 634 338	28 634 338
Opening balance as previously reported	87 654 047	87 654 047
Adjustments		
Prior year error (Note 24)	(151 934)	(151 934)
Balance at 01 July 2010	87 524 314	87 524 314
Changes in net assets		
Surplus for the year	41 630 561	41 630 561
Total changes	41 630 561	41 630 561
Balance at 30 June 2011	129 154 875	129 154 875

Notes 8

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Cash receipts for equitable share, conditional grants and from debtors		79 499 345	77 489 590
Cash Receipts from debtors		1 422 029	81 783
Interest Received		1 420 804	1 558 947
		<hr/> 82 342 178	<hr/> 79 130 320
Payments			
Cash paid to suppliers and employees		(51 317 901)	(37 619 148)
Total receipts		<hr/> 82 342 178	<hr/> 79 130 320
Total payments		(51 317 901)	(37 619 148)
Net cash flows from operating activities	17	31 024 277	41 511 172
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(35 480 402)	(31 136 407)
Proceeds from sale of property, plant and equipment	2	467 035	436 786
Prior year adjustments		151 934	-
Other cash item		10 456	(58 096)
Net cash flows from investing activities		(35 193 252)	(31 060 062)
Net (decrease)/increase in cash and cash equivalents		(4 168 975)	10 451 110
Cash and cash equivalents at the beginning of the year		19 786 492	9 335 382
Cash and cash equivalents at the end of the year	7	15 617 517	19 786 492

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below:

GRAP - 1 Presentation of Financial Statements

GRAP - 2 Cashflow Statements

GRAP - 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP - 9 Revenue from Exchange Transactions

GRAP - 13 Leases

GRAP - 17 Property Plant and Equipment

GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP - 26 Impairment of Cash Generating Assets

1.1 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.1 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Infrastructure	-
• Leveling Drains on roads	20
• Roads construction	10
• Road graveling	10
• Borehole pump	15
Other	
• Buildings	30
• Furniture and Fittings	8
• Transport Assets	5
• Computer equipment	5
Plant and Equipment	
• Tip Trailer	15
• Furrow Plough	5
• Harrow Offset	5
• Tractors	10
• Hydroponic Tunnel	10
• Grader	15
• TLB	15

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.2 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

1.3 Financial instruments

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Accounting Policies

1.3 Financial instruments (continued)

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.5 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.5 Employee benefits (continued)

Defined benefit plans

The defined benefit obligation, the related current cost and where applicable, past service cost, is determined by using the Projected Unit Credit Method. A portion of the actuarial gains and losses is recognised as revenue or expense, provided the net cumulative actuarial gains and losses at the end of the previous reporting period exceed greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
- 10% of the fair value of the plan assets

The portion of the actuarial gains and losses to be recognised is equal to the excess calculated, using the above limits and divided by the expected average remaining working lives of the employees participating in the plan. Unvested past-service costs are recognised as an expense in the Statement of Financial Performance.

For defined benefit plans the costs of providing the benefits is determined using the projected credit method.

The Municipality's employees are members of the following Benefit Schemes. Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan). Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan per Exposure Draft No. 49.

Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing a retirement benefits for the councilors, because they are now getting a total package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

The municipality also contributes to a Group Life Scheme for all employees in the event of their death, other than section 57 employees.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.6 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised but disclosed as a note in the financial statements..

1.7 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from Tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

Rates

Revenue from rates is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Conditional grants and receipts

Conditional grants, donations and funding are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.8 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.9 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.10 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.11 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Irregular expenditure

Irregular expenditure is an expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), Municipal Systems Act (Act No. 32 of 2000), Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes an unauthorized expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.13 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.14 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.15 Internal reserves

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit

When an item of financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.16 Value Added Tax (VAT)

The municipality accounts for Value Added Tax on the cash basis with respect to the South African Revenue Service.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

2. Property, plant and equipment

	2011		2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment
Solid Waste Disposal	37 794	(4 892)	32 902	37 794	(3 191)
Dwellings	431 776	(105 943)	325 833	431 776	(62 766)
Computer Equipment	1 608 772	(851 632)	757 140	1 462 364	(628 159)
Furniture & Office Equipment	2 231 910	(1 136 849)	1 095 061	2 082 813	(859 068)
Non Residential Dwellings	48 450 912	(8 977 126)	39 473 786	46 301 678	(7 380 968)
Transport Assets	2 591 858	(620 918)	1 970 940	2 331 734	(463 381)
Machinery & Equipment	3 181 825	(1 274 836)	1 906 989	3 424 520	(1 099 004)
Roads	65 326 821	(6 466 579)	58 860 242	26 309 371	(3 173 994)
Assets under construction	8 643 342	-	8 643 342	15 604 878	-
Total	132 505 010	(19 438 775)	113 066 235	97 986 928	(13 670 531)
					84 316 397

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Solid Waste Disposal	34 603	-	-	-	(1 701)	32 902
Dwellings	369 010	-	-	-	(43 177)	325 833
Computer Equipment	834 205	229 394	(17 432)	-	(289 027)	757 140
Assets Under Construction	15 604 878	24 261 665	-	(31 223 201)	-	8 643 342
Furniture & Office Equipment	1 223 745	185 420	(23 868)	-	(290 236)	1 095 061
Non Residential Dwellings	38 920 710	1 129 534	-	1 019 699	(1 596 157)	39 473 786
Transport Assets	1 868 353	852 941	(400 851)	-	(349 503)	1 970 940
Machinery Equipment	2 325 516	7 500	(165 076)	-	(260 951)	1 906 989
Roads	23 135 377	8 813 948	-	30 203 502	(3 292 585)	58 860 242
	84 316 397	35 480 402	(607 227)		(6 123 337)	113 066 235

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Donations	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	1 660 879	-	-	(1 660 879)	-	-	-	-	-
Plant and machinery	2 607 187	-	-	(2 607 187)	-	-	-	-	-
Furniture and fixtures	949 768	-	-	(949 768)	-	-	-	-	-
Motor vehicles	1 372 026	-	-	(1 372 026)	-	-	-	-	-
Office equipment	485 314	-	-	(485 314)	-	-	-	-	-
IT equipment	831 107	-	-	(831 107)	-	-	-	-	-
Infrastructure	12 962 593	-	-	(12 962 593)	-	-	-	-	-
Community	34 086 303	-	-	(34 086 303)	-	-	-	-	-
Solid Waste Disposal	-	-	-	36 304	-	-	(1 701)	-	34 603
Dwellings	-	188 000	-	216 513	-	-	(35 503)	-	369 010
Computer Equipment	-	205 840	(81 185)	911 153	73 127	-	(274 730)	-	834 205
Assets Under construction	3 486 050	30 294 497	-	-	-	(18 175 669)	-	-	15 604 878
Furniture & Office Equipment	-	129 987	(33 737)	1 332 968	66 619	-	(272 092)	-	1 223 745
Non Residential Dwellings	-	10 088	-	40 779 807	15 652	2 549 632	(1 492 045)	(2 942 424)	38 920 710
Transport Assets	-	298 195	(321 072)	1 870 608	270 220	-	(249 598)	-	1 868 353
Machinery Equipment	-	9 800	(792)	2 591 782	673	-	(275 947)	-	2 325 516
Roads	-	-	-	8 611 642	-	15 626 037	(1 024 516)	(77 786)	23 135 377
	58 441 227	31 136 407	(436 786)	1 395 600	426 291	-	(3 626 132)	(3 020 210)	84 316 397

Transitional provisions

Due to initial adoption of GRAP 17

The Municipality is complying with Directive 4 with regards to adoption of GRAP 17. The process of componentising assets is in progress and most assets have been componentised to date. In accordance with Directive 4 for Low capacity municipalities, the date of full compliance with GRAP 17 is expected to be 30 June 2012.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
3. Operating lease asset		
Current asset	179 897	47 112
Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference of R179,897 (2010: R47 112) between the amounts recognised as an expense and the contractual payments that have been recognised as an operating lease asset.		
4. Other receivables		
Sundry debtors	537 833	339 923
Interest	2 938	20 454
Rei Management	2 379 003	2 379 003
Rei Management (Provision for Bad debts)	(2 379 003)	(2 379 003)
	540 771	360 377
5. VAT receivable		
Value Added Tax (VAT)	7 204 282	5 951 605
The municipality is predominantly funded by Government Grants which are zero rated. Therefore VAT input has been claimed which has not been received as yet.		
6. Trade and other receivables from non exchange transactions		
Gross balances		
Rates	810 195	689 617
Less: Provision for debt impairment		
Rates	(282 417)	(94 139)
Net balance		
Rates	527 778	595 478
Rates		
Current (0 -30 days)	82 535	106 047
31 - 60 days	22 649	-
61 - 90 days	15 835	128 566
91 - 120 days	81 168	128 567
121 - 365 days	325 591	232 298
	527 778	595 478
Reconciliation of debt impairment provision		
Balance at beginning of the year	(94 139)	-
Contributions to provision	(188 278)	(94 139)
	(282 417)	(94 139)

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand		606	601
Bank balances		6 044 510	10 210 672
Short-term deposits		9 572 401	9 575 219
		15 617 517	19 786 492

The short-term investments deposits are attributable to unspent conditional grants. The short-term investments are held in First National Bank Ltd in Port Shepstone.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances		-
	30 June 2011	30 June 2010	30 June 2011	30 June 2010	
ABSA BANK LTD - Port Shepstone - 40-7276-2850	7 297 645	10 778 447	-	5 355 089	9 976 062
ABSA Housing Account - Port Shepstone - 40-7278-0715	577 438	108 185	-	577 438	108 185
ABSA MIG Account - Port Shepstone 40 - 7277-6506	111 983	108 185	-	111 983	108 185
Total	7 987 066	10 994 817	-	6 044 510	10 192 432

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

8. Accumulated surplus

	Government grant reserve	Total
Opening Accumulated surplus	29 216 191	29 216 191

Ring-fenced internal funds and reserves within accumulated surplus

	Government grant reserve	Total
Opening balance	25 730 139	25 730 139
Assets under construction	3 486 052	3 486 052
	29 216 191	29 216 191

9. Unspent conditional grants and receipts

Movement during the year

Balance at the beginning of the year	15 796 416	8 886 763
Additions during the year	19 978 180	38 263 595
Income recognition during the year	(34 328 972)	(31 353 942)
	1 445 624	15 796 416

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited.

See appendices for reconciliation of grants from National/Provincial Government.

10. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Leave pay	979 985	1 306 192	(316 319)	(663 666)	1 306 192

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Leave pay	806 672	979 985	(285 761)	(520 911)	979 985

11. Trade and other payables

Trade payables	5 027 650	6 486 409
Other payables	182 139	140 605
Accrued expense	20 000	-
	5 229 789	6 627 014

12. Property rates

Rates received

Property rates	1 542 607	771 400
----------------	-----------	---------

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
13. Government grants and subsidies		
Equitable share	60 966 790	48 056 023
MIG	31 921 714	27 959 824
MSIG	591 998	735 000
Low Cost Housing Grant	630 254	591 274
Financial Management Grant	1 250 000	1 037 705
MAP	-	299 768
LED strategy	-	86 991
Youth Advisory Centre	125 000	108 667
Governance grant	-	21 052
Capacity support grant	-	18 565
Burial Support	-	16 954
Property rates	-	6 679
Water drought relief	-	6 424
CDW	-	854
IDP	-	51 666
Governance structures and HR systems and PP	-	307 852
Project consolidate	-	100 000
	95 485 756	79 405 298
14. General expenses		
Advertising	143 201	146 805
Auditors remuneration	477 483	453 379
Bank charges	87 147	81 808
Consulting and professional fees	1 650 037	863 909
Consumables	88 713	78 670
Entertainment	153 035	154 099
Insurance	28 071	597 577
Community development and training	540 552	253 266
Conferences and seminars	91 022	38 018
Lease rentals on operating lease	97 438	179 415
Marketing	106 586	69 090
Magazines, books and periodicals	267	1 128
Motor vehicle expenses	830 634	655 258
Printing and stationery	457 859	448 652
Security (Guarding of municipal property)	232 873	107 471
Telephone and fax	1 311 349	1 232 037
Training	446 080	208 521
Travel - local	735 668	798 315
Electricity	45 073	90 095
Free basic services (Electricity & Water)	3 134 991	5 232 161
Uniforms	22 090	9 483
Tourism development	211 321	697 599
Projects expenditure	6 555 642	6 536 428
Other expenses	5 851 910	4 925 785
	23 299 042	23 858 969

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
15. Employee related costs		
Basic	10 646 194	6 669 514
Bonus	798 902	613 297
Medical aid - company contributions	546 754	419 294
UIF	78 877	66 245
SDL	180 157	109 595
Leave pay provision charge	187 384	285 761
Post-employment benefits - Pension - Defined contribution plan	1 185 766	909 140
Travel, motor car, accommodation, subsistence and other allowances	2 164 920	4 277 332
Overtime payments	99 059	324 656
Acting allowances	72 766	92 027
Housing benefits and allowances	4 603	90 369
Other expenses	12 458	95 886
	15 977 840	13 953 116

A split of payroll related accounts between employee and councillor costs resulted in the reclassification of the travel and vehicle accounts which were previously used for both payroll classes

Travel, motor car, accomodation, subsistence and other allowances	R3,692,310
Other expenses	R 479,121.

Remuneration of Acting Municipal Manager

Annual Remuneration	74 086	349 775
Car Allowance, Entertainment and Telephone Allowance	58 802	223 268
Performance Bonuses	-	39 800
Housing Allowances	4 603	55 233
Other	1 067	12 644
	138 558	680 720

Remuneration of Chief Financial Officer

Annual Remuneration	421 126	358 450
Car, Entertainment and Telephone Allowances	112 000	89 920
Other	921	3 764
	534 047	452 134

Remuneration Corporate Services Director

Annual Remuneration	388 593	421 287
Car, Entertainment and telephone Allowances	130 686	123 519
Performance Bonuses	38 295	30 324
Other	25 719	11 728
	583 293	586 858

Remuneration of Technical Services Director

Annual Remuneration	421 126	306 875
Car, Entertainment and Telephone Allowances	112 000	87 291
Performance Bonuses	-	30 324
Housing Allowances	-	45 696
Other	248	3 504
	533 374	473 690

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

15. Employee related costs (continued)

Remuneration of Social & Community Services Director

Annual Remuneration	331 717	221 127
Car Allowance	187 562	134 015
Other	43 308	2 654
	562 587	357 796

16. Remuneration of councillors

Major	524 129	499 850
Deputy Mayor	482 224	415 867
Speaker	458 552	415 867
Councillors	6 398 870	6 558 948
	7 863 775	7 890 532

17. Cash generated from operations

Surplus	41 630 561	28 634 339
Adjustments for:		
Depreciation and amortisation	6 123 338	3 626 133
Loss on sale of assets	342 275	302 345
Impairment deficit	-	3 020 210
Debt impairment	188 278	94 139
Movements in provisions	326 207	173 313
Other non-cash items	(151 930)	(36 566)
Changes in working capital:		
Operating lease asset	(132 785)	(47 112)
Other receivables	(180 394)	(392 384)
Consumer debtors	(120 578)	(689 617)
Trade and other payables	(1 397 226)	2 817 280
VAT	(1 252 677)	(2 900 561)
Unspent conditional grants and receipts	(14 350 792)	6 909 653
	31 024 277	41 511 172

18. Commitments

Authorised capital expenditure

Approved and contracted for:		
• Infrastructure	34 639 076	26 773 189
Approved but not yet contracted for:		
• Infrastructure	13 297 142	12 875 292

This committed expenditure relates to Infrastructure and will be financed by Government grants.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

19. Related Party Transactions

Section 45 (2) and 44 of SCM Regulations

Purchases from related parties

Bulomo Commodities	6 000	-
Hlwanyela Emphakathini Project Managers	16 700	-
Makhosohlanga Construction	21 500	-
Don't Rush Construction and Trading	10 150	-
Luthulis and Shibes Construction and Catering	26 500	-
Cwija Trading Enterprise	37 987	-
Zophaka Catering and Trading Enterprise	21 840	-
FAKSIN CC	16 952	-

BULOMO COMMODITIES - 100 % owned by MPL Zungu who is a councillor of the Municipality

HLWANYELA EMPHAKATHINI PROJECT MANAGERS - 50 % owned by MP Daniels who is an employee of the Municipality

MAKHOSOHLANGA CONSTRUCTION - 60 % owned by MA Sikhosana who is a councillor of the Municipality

DON'T RUSH CONSTRUCTION AND TRADING - 40 % owned by MA Sikhosana who is a councillor of the Municipality

LUTHULIS AND SHIBES CONSTRUCTION AND CATERING - 40 % owned by OT Luthuli who was an employee of the Municipality

CWIJA TRADING ENTERPRISE - 50 % owned by EN Jawara who is an employee of the Municipality

ZOPHAKA CATERING AND TRADING ENTERPRISE - 25 % owned by MA Sikhosana who is a councillor of the Municipality

FAKSIN CC - Owned by S. Ndelu. S Ndelu is related to N. Ndelu who is an employee of the Municipality.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
20. Unauthorised expenditure		
Opening balance	4 783 504	8 152 039
Unauthorised expenditure current year	-	2 404 501
Less: Amounts condoned	<u>(2 404 501)</u>	<u>(5 773 036)</u>
	2 379 003	4 783 504

21. Fruitless and wasteful expenditure

Opening balance	118 150	162 881
Current year expenditure	30 253	118 150
Less: Amounts condoned	<u>(118 150)</u>	<u>(162 881)</u>
	30 253	118 150

The Municipality incurred fruitless and wasteful expenditure of R30 253 due to interest and penalties arising from late payments to Eskom and Telkom.

Action

The expenditure will be reported to Council.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

22. Irregular expenditure

Opening balance	4 895 216	6 179 384
Add: Irregular Expenditure - current year	1 225 369	4 558 688
Less: Amounts condoned	(4 558 688)	(5 842 856)
	1 561 897	4 895 216

Details of irregular expenditure – current year

INCIDENT	ACTION	
During the year, the municipality awarded a contract to Fidelity Security Services for the provision of security services. The municipality was unaware that the company is listed on the National Treasury's database as a prohibited supplier from doing business with any public entity. As a result the municipality incurred irregular expenditure amounting to R83 169.96 which represents the total paid to Fidelity Security Services.	The expenditure will be reported to the Council.	83 170
During the year, the municipality procured from suppliers who were in the service of the state. As a result, irregular expenditure of R1 142 198.63 was incurred which was beyond the control of the municipality as the municipality had relied on declarations forms and was unable to verify these declarations.	The expenditure will be tabled to council for condonment.	1 142 199
		1 225 369

23. Retirement Benefit Information

The Municipality's employees are members of the following Benefit Schemes. Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan). Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan per Exposure Draft No. 49.

24. Prior year adjustments

Adjustments for assets		
Non Residential Dwellings	-	(1 541 548)
Adjustment for prior year errors		
Correction of error on Creditors General ledger	-	(732 766)
Correction of an over realisation of Housing Grant	(151 934)	-
	(151 934)	(732 766)
Adjustment for provision for doubtful debts		
Reallocation of balance	-	93 340

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

24. Prior year adjustments (continued)

Adjustment for prior year cheques

Correction of difference between current year creditors age analysis and ledger
Prior year accrual not reversed

-	244 314
-	(51 969)
-	192 345

25. Interest Received

Interest from investments with First National Bank

1 420 804	1 558 947
-----------	-----------

26. Other Income

Creditors discount-Finance & Admin-Finance
Rental income-Finance & Admin-Finance
Tender income-Finance & Admin-Finance
Other Income

246 561	281 473
30 000	-
89 456	77 897
363 895	871 999
729 912	1 231 369

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2011